



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

Date: October 15, 2014

To: All Approved Mortgagees

Section 184 Mortgagee Letter: 15-1

Subject Indian Housing Loan Guarantee Program: New Annual Insurance Premium

Purpose This Mortgage Letter (ML) is to inform all tribal leaders and approved mortgagees that HUD has officially announced a change in administrative policy for the Indian Housing Loan Guarantee program (Section 184).

Background The 2013 Consolidated and Further Continuing Appropriations Act ([Pub. L. 113-6](#), approved March 26, 2013) amended section 184(d) of the Housing and Community Development Act of 1992, by authorizing the Secretary to increase the upfront premium for the guarantee of loans up to 3 percent of the principal obligation of the loan and to establish and collect annual premium payments in an amount not exceeding one percent of the remaining guaranteed balance (excluding the portion of the remaining balance attributable to the premium collected at the time of the issuance of the guarantee) by publishing a notice in the Federal Register. On April 4, 2014, HUD exercised its larger loan guarantee premium authority to increase the one-time, loan guarantee premium that borrowers pay at loan closing from 1 percent to 1.5 percent of a mortgage ([79 FR 12520](#)). This increase ensured that there would be enough funding to meet borrower demand for all of fiscal year 2014, and reduce the amount of subsidy needed to meet demand in future years.

In July 2013, HUD sent out a consultation letter to tribal leaders with a notification of proposed premium changes in the Section 184 program. The Section 184 program is sustained by funds appropriated by Congress, and by premiums paid by the borrower. As a standard mortgage practice, these premiums pay for administrative expenses (not including government personnel), insurance, taxes, prior liens, and other expenses resulting from the loan guarantee. These premiums also contribute to HUD's ability to provide additional loan guarantees.



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Effective Date These changes are effective for Section 184 case numbers assigned on or after **November 15, 2014**, unless otherwise specified.

Topic As announced on October 7, 2014 in the federal register (79 FR 60492) the Section 184 program will be implementing an annual loan guarantee premium of 0.15 percent of the outstanding principal balance. Section 184 loans will now have both a 1.5 percent upfront loan guarantee premium and a 0.15 percent annual loan guarantee premium. The new loan guarantee premium structure will be effective for all case numbers issued on or after **November 15, 2014**. HUD estimates that the average family's expense will increase by \$22 per month. Even with the increase, the program will still be one of the most affordable government-supported mortgage programs.

Lenders participating in the Section 184 should ensure that all loans approved for closing comply with this policy. The new annual premium applies only while the unpaid principal balance, excluding the upfront loan guarantee premium, exceeds 78 percent of the lower of the initial sales price or appraised value based on the initial amortization schedule. In the first payment year after the mortgage amortizes to a loan-to-value ratio of 78 percent, collection of the annual premium will cease. HUD will determine when the mortgage reaches the amortized 78 percent LTV threshold based on the contract interest rate and the LTV information provided to HUD's mortgage processing system by the originating lender, and will cease billing the servicing lender accordingly.

HUD's calculation of the 78 percent threshold will be predicated on the loan amount excluding the upfront loan guarantee premium. HUD estimates that this will represent 11 years' worth of annual premium collections on an average loan with no prepayment of principle. HUD will assess an annual premium in all payment years in which the LTV threshold of 78 percent has not been met at the start of the payment year. A waiver for termination of the premium can be submitted if the 78 percent LTV threshold is reached before the end of the payment year. Unless a waiver request is processed, premium collection will continue until end of the payment year in which the 78 percent LTV threshold is crossed, at which point it will automatically cease. HUD will only refund annual loan guarantee premium payments made starting in the month after receiving a waiver request.

In the event of an accelerated payment schedule, the premium can be terminated earlier. A request of early termination must be submitted by



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the lender with sufficient documentation for HUD to review the request. HUD will provide guidance on sufficient documentation.

This change in the Section 184 program will greatly assist in sustaining HUD's goal of providing mortgage capital to Native American families. Further guidance and information for implementation will be forthcoming. Thank you for your continued support.

Questions

Please send any questions about the topic addressed in the Mortgagee Letter to the Office of Loan Guarantee and Thomas C. Wright, Director. Questions can be submitted via phone at 1-800-561-5913 or via email to Section184@hud.gov.

For further information and tools please visit our website, located at http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih/homeownership/184

Signature

Rodger J. Boyd
Deputy Assistant Secretary for Native American Programs

cc: Executive Director, Tribally Designated Housing Entity; Section 184 Approved Lenders



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